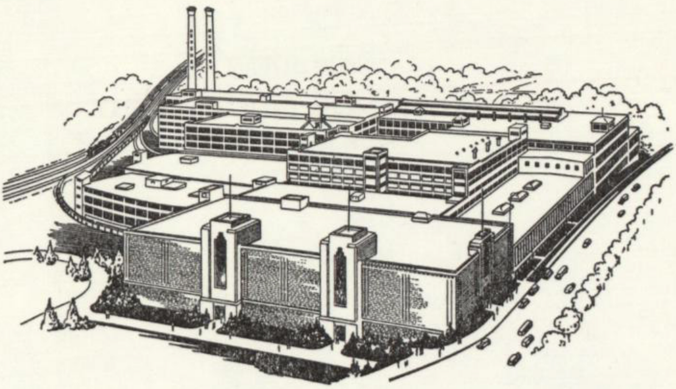
HERSHEY
CHOCOLATE CORPORATION

ANNUAL REPORT
DECEMBER 31, 1950

HERSHEY
CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

P. A. STAPLES, *Chairman*

J. J. GALLAGHER
P. N. HERSHEY
S. F. HINKLE
L. W. MAJER
W. E. SCHILLER
D. PAUL WITMER

OFFICERS

P. A. STAPLES, *President*

L. W. MAJER, *Secretary*

W. E. SCHILLER, *Treasurer and Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

To the Stockholders of

Hershey Chocolate Corporation:

I am pleased to submit herewith the financial statements of Hershey Chocolate Corporation at December 31, 1950, as examined by Messrs. Arthur Andersen & Co.

The volume of business continued at a high level through 1950 and sales amounted to $148,924,992, as compared with $142,180,408 in the preceding year. Operating results for the year were favorable, and net profit amounted to $13,596,492.

In reviewing the statement of profit and loss it should be noted that the determination of reported earnings was affected by a change in 1950 to the "last-in, first-out" method of computing cocoa bean costs. Comparing the operating results with amounts which would have been reported under the method previously used, the effect of the change is a reduction of net profit in the amount of $3,813,905, after reflecting a reduction of $4,100,000 in the provision for income and excess profits taxes. Even with this change our provision for taxes is approximately $5,000,000 greater this year than in 1949. Net profit for 1949, as previously reported to you, amounted to $15,481,242.

Our major problem, particularly in recent years, has been the procurement of cocoa beans under conditions of widely fluctuating market prices and a world supply which has been, and apparently still is, low in relation to demand. The market price of cocoa beans at the end of 1950 was one-third higher, and at the date of this writing is approximately sixty per cent higher, than at the close of 1949. Africa and Brazil are the principal sources of supply, and it is necessary for us to maintain a large inventory and to contract for cocoa beans long in advance of their arrival in this country.

The financial risk inherent in a necessarily large inventory and commitment position is apparent and was recognized in 1947 by the appropriation of $6,000,000 from net profit for that year to a reserve for future inventory price decline. In view of the change in the method of computing the cost of cocoa beans, with the resulting reduction of approximately $7,000,000 in the amount at which inventories were carried on the balance sheet at December 31, 1950, your Board of Directors no longer deemed the reserve necessary and the balance of $6,000,000 was transferred to earned surplus.

In December 1950 the management announced, in connection with a wage adjustment, certain improvements in the pension plan which was originally adopted in 1941. The past service cost resulting from the revisions will be borne entirely by the Corporation and

is estimated to be approximately $1,814,000. The Corporation will continue, as in the past, to pay approximately two-thirds of the annual cost of current service, and the remainder will be paid by the employees.

Working capital at the close of 1950 amounted to $36,793,680, and the financial position of the Corporation was strong. Working capital was approximately $7,700,000 lower than at the close of the preceding year; however, in the latter part of 1950 all of the 253,742 outstanding shares of Series B 4½% Preferred Stock (par value $50 per share) were redeemed at $51 per share. This redemption, which was accomplished without any borrowing, will result in an annual dividend reduction of approximately $570,000.

The plant improvement program was continued through the year, and a total of approximately $2,700,000 was invested. One of the major projects was the construction of silos adjacent to the plant for the storage of cocoa beans, many of which have heretofore been stored in eastern seaboard warehouses. It is expected that the silos will be in use within a short time and that their use will result in substantial savings in bean handling and storage costs. Under our construction budget additional improvements were planned for the next two or three years at an estimated cost of approximately $5,000,000; however, the extent of the work will depend in large measure upon the availability of equipment and materials under an economy of Government controls and upon the Corporation's need of funds for working capital.

It is not practicable to forecast at this time the trend of profits for the year 1951, especially as it is impossible to weigh the effect of Government regulations on our business as well as the effect of higher material and other costs.

The continued success of our business depends upon the loyalty and good will of our officers and employees, and I wish to express my appreciation for a job well done in 1950.

Respectfully submitted,

P. A. STAPLES

President

February 26, 1951

AUDITORS' CERTIFICATE

To the Board of Directors,
Hershey Chocolate Corporation:

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1950, and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 to the accompanying financial statements, the Corporation, effective as of January 1, 1950, adopted for accounting purposes the last-in, first-out method of computing the cost of cocoa bean inventories and the cocoa bean content of goods in process and finished goods inventories. The Corporation intends to adopt such method for income tax purposes unless there is a substantial change in the present Federal income and excess profits tax law or in economic conditions at the time the final tax return is filed for the year ended December 31, 1950. We approve this change in method and are of the opinion that the financial statements are otherwise presented on a basis consistent with that of the preceding year.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1950, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

New York, N. Y.
February 16, 1951.

HERSHEY CHOCOLA

BALANCE SHEET -

ASSETS

CURRENT ASSETS:		
Cash		$ 9,354,598
Accounts receivable, less reserves of $452,075		6,091,858
Inventories (lower of average cost or market, except for cocoa beans and cocoa bean content of goods in process and finished goods inventories which are stated at cost on last-in, first-out basis) (Note 2)		30,569,394
Total current assets		$46,015,850
PLANT AND PROPERTY, at cost:		
Land	$ 119,157	
Buildings and improvements	10,861,992	
Machinery and equipment	18,144,879	
Construction in progress	1,758,876	
	$30,884,904	
Less—Reserves for depreciation	15,932,826	14,952,078
DEFERRED AND PREPAID ITEMS		1,090,918
		$62,058,846

Reference is made to the accompar

TE CORPORATION

DECEMBER 31, 1950

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable and accrued liabilities		$ 5,560,322
Dividend payable February 15, 1951 on Series A Cumulative Preferred Stock		134,800
Reserve for State taxes		1,294,385
Reserve for Federal income and excess profits taxes	$13,707,663	
Less United States Treasury Savings Notes	12,000,000	1,707,663
Portion of past service cost of pensions payable in 1951 (Note 3)		525,000
Total current liabilities		$ 9,222,170
RESERVE FOR PAST SERVICE COST OF PENSIONS ($1,814,000 less $525,000 included in current liabilities) (Note 3)		1,289,000
CAPITAL STOCK AND SURPLUS:		
Series A 4-¼% Cumulative Preferred Stock, par value $50 per share (Note 1)— Authorized 253,843 shares; outstanding 253,742 shares	$12,687,100	
Common Stock, without par value— Authorized 3,000,000 shares; outstanding 2,311,295 shares	770,432	
Earned surplus	38,090,144	51,547,676
		$62,058,846

ing notes to financial statements.

HERSHEY CHOCOLATE CORPORATION

STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1950

PROFIT AND LOSS

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES		$148,924,992
COST OF GOODS SOLD, SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (Notes 2, 3 and 4)		121,238,500
		$ 27,686,492
PROVISION FOR TAXES ON INCOME:		
Federal normal and surtax	$11,900,000	
Federal excess profits tax	1,500,000	
Commonwealth of Pennsylvania income tax	690,000	14,090,000
Net profit for the year		$ 13,596,492

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1949		$ 25,505,001
ADD:		
Net profit for the year 1950		13,596,492
Transfer from reserve for future inventory price decline		6,000,000
Adjustment of inventory at beginning of year incident to change in accounting method (Note 2)		854,826
		$ 45,956,319
DEDUCT:		
Dividends—		
Dividends declared on Cumulative Preferred Stock—		
Series A 4¼%	$ 539,217	
Series B 4½%	428,228	
Dividends paid on Common Stock ($2.87½ per share)	6,644,988	
	$ 7,612,433	
Premium of $1.00 per share on redemption of all outstanding shares of Series B 4½% Cumulative Preferred Stock	253,742	7,866,175
EARNED SURPLUS AT DECEMBER 31, 1950		$ 38,090,144

Reference is made to the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) The Preferred Stock is redeemable by the Corporation. During 1951 the optional redemption price of Series A 4¼% Preferred Stock is $52.50 per share and the sinking fund redemption price is $51 per share. Upon voluntary liquidation such Preferred Stock is entitled to a preferential amount equal to its then applicable optional redemption price and, upon involuntary liquidation, to $50 per share. Such prices and amounts are plus accrued dividends. Dividends on, or purchases of, Common Stock are (with certain exceptions) conditioned upon compliance with sinking fund provisions requiring the Corporation to have purchased or redeemed a cumulative average of 5,075 shares of Series A Preferred Stock per annum.

(2) Effective as of January 1, 1950, the last-in, first-out method of computing the cost of cocoa bean inventories and the cocoa bean content of goods in process and finished goods inventories was adopted for accounting purposes. The Corporation intends to adopt such method for Federal income tax purposes unless there is a substantial change in the present Federal income and excess profits tax law or in economic conditions at the time the final income and excess profits tax return is filed for the year 1950. As a result of this change in method, inventories at December 31, 1950 and net profit for the year then ended were less than would have been reported under the method previously used. Inventories at December 31, 1950 were reduced $7,059,079 and an increase of $854,826 was made, incident to the change in accounting method, in inventories as of January 1, 1950. Net profit for the year was reduced $3,813,905 after reflecting provision for taxes on income for the year, computed on the income determined on such last-in, first-out basis at tax rates in effect for 1950.

(3) A modification of the employees' pension plan was announced in December 1950, effective January 1, 1951. The past service cost of pensions resulting from such modification has been estimated by the management on an actuarial basis at $1,814,000, of which $525,000 is payable in 1951. Pursuant to action by the Board of Directors, such estimated past service cost, less the deferred estimated tax benefit that may be derived in the future, has been charged to profit and loss in 1950. The amount payable in 1951 is included in current liabilities and a reserve for the balance of such estimated past service cost of pensions was created.

(4) Costs and expenses for the year 1950 include provision for depreciation of plant and equipment in the amount of $863,857.

HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Atlanta, Ga.
Cambridge, Mass.
Chicago, Ill.
Cincinnati, Ohio
Denver, Colo.
Detroit, Mich.
Houston, Texas
Jacksonville, Fla.
Kansas City, Mo.
Little Rock, Ark.
Los Angeles, Cal.
Milwaukee, Wis.
New York, N. Y.
Oklahoma City, Okla.
Omaha, Neb.
Portland, Ore.
East St. Louis, Ill.
St. Paul, Minn.
Salt Lake City, Utah
San Francisco, Cal.
Seattle, Wash.

SALES OFFICES

In all principal cities in the United States

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS	MILK CHOCOLATE KISSES
ALMOND BARS	BAKING CHOCOLATE
SEMI-SWEET BARS	DAINTIES
KRACKEL BARS	BREAKFAST COCOA
MR. GOODBAR	CHOCOLATE SYRUP
MINIATURE BARS	HOT CHOCOLATE POWDER

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS	COCOA POWDER
UNSWEETENED CHOCOLATE	CHOCOLATE SYRUP

COCOA BUTTER